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The Rhetorical Fall

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Confidential – Proprietary

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The Rhetorical Fall

It is that time again of the year again – as the long days of July and August brought another heat wave to New York, Wall Street's mood turned sour and the markets corrected meaningfully. The late summer and early fall months have in the past been a seasonally weak time period for financial markets. In addition, a slew of disappointing economic news continues to fuel fears of a double-dip recession. And finally, as November 2nd approaches, the political rhetoric leading up to the important mid-term elections has intensified, keeping the nation's eyes and minds on Washington, DC.

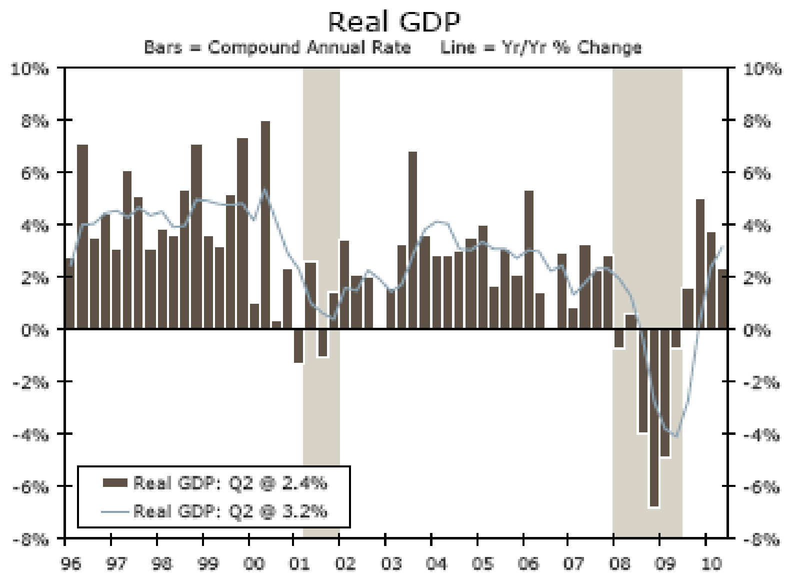
The S&P 500 Index fell to 1,052 at the August 24th close, down 14% from its 52-week high of 1,220 reached on April 24th and 5% from where it was at the beginning of the year. Presently, the index is still above its July lows, but according to several models, one of which is included below, has again entered oversold territory.

Source: Wedgewood Partners, Kass, Bloomberg, BTIG

So far this year, the S&P has traded in a range of about 200 points (1,020 to 1,220) with heightened volatility. We believe this trading range is likely to hold through the end of the year, or at least until the November 2nd elections.

Source: Yahoo Finance

On the economic front, recent measures have come in weaker than expected, especially in the areas of employment, small business conditions, and housing. Tuesday's existing home sales report saw a 27% plunge to a record low of 3.83 million despite historically low mortgage rates. The Leading Economic Indicators Index is signaling slow growth ahead – strength in industrial production and accommodative Fed policies are being offset by non-existent job growth and stalling consumer sentiment. And while second quarter GDP growth was initially estimated at decent 2.4%, most observers and analysts expect a downward revision of about 100 bps this coming Friday.



Source: Wells Fargo Economics Group

The investment managers we utilize are closely tuned into economic and market dynamics as well as company fundamentals. In fact, their portfolio management styles are much better suited for today's market than the "rising tide lifts all boats" rally of 2009. Stock picking skill can lead to excess returns only if stock-specific valuations and fundamentals matter. Valuations, in general, have become more attractive and provide active, bottom-up, concentrated managers with a real opportunity to add value and outperform the broad market indices and their benchmark-hugging peers in the coming quarters and years. Many of the firms we work with had been keeping a percentage of the portfolio in cash – this allocation not only helps dampen portfolio volatility in difficult markets, but also provides "dry powder" for making new investments at bargain prices.

The coming months will undoubtedly bring about even more economic and political rhetoric. The temptation to become reactive is always strongest in times of uncertainty. However, Beacon Pointe has always believed in managing client portfolios conservatively with the clients' long-term objectives in mind. We are confident that your assets are prudently positioned to withstand the current market environment and to take advantage of the increasing number of opportunities created by the market correction.

Please feel free to call Beacon Pointe at 949-718-1600 should you need additional information or have any questions.